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SUBJECT: COLOMBIA: ENERGY SECTOR TO EXPAND WITH EXIM FINANCING

REF: A. BOGOTA 3383; B. BOGOTA 3236

CLASSIFIED BY: Timothy M. Stater, Economic Counselor, Department of State, U.S. Embassy Bogota; REASON: 1.4(B), (D)

11. (C) The energy sector in Colombia has big plans to expand and the Export-Import Bank (ExIm) and the U.S. Trade Development Agency (TDA) want to be part of this expansion by providing financial backing and trade capacity building assistance. ExIm plans to be the lead export credit agency for two refinery projects, with financing valued at close to US\$3 billion, and is entertaining other financial deals with General Electric, particularly in wind turbines and a 180 MW thermal electric power generation plant. ExIm's Chairman, Fred Hochberg, plans to visit Colombia in early 2010 in support of these initiatives. TDA is interested in supporting several studies in the energy sector, including a strategic plan for natural gas storage, a regulatory framework for the development of coal-bed methane, a waste to energy project, technical support to GOC's energy regulator, and offshore oil and gas development in the Caribbean. End Summary.

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Overview  
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12. (SBU) Both ExIm and TDA visited Colombia as part of the Alabama trade mission, led by Governor Bob Riley, in early November (reftel A). Diane Farrell, ExIm Bank Board Member, and Patricia Arriagada, U.S. Trade Development Agency (USTDA) Country Manager, held meetings with Ecopetrol, Reficar (a wholly-owned subsidiary of Ecopetrol charged with expanding the Cartagena refinery), Colombia's National Agency for Hydrocarbons, the Ministry of Mines and Energy, General Electric, and IsaGen (Colombia's third largest electricity producer). Additionally, both met with President Uribe and participated in a roundtable with board members of the American Chamber of Commerce and the Council of American Businesses.

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Ecopetrol's Aggressive Strategy

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13. (C) The Director of Ecopetrol's Financial Unit, Vice President Diana Hernandez, told ExIm that its capital expenditures from 2008 to 2015 are projected to be US\$60 billion, with US\$ 38 billion for upstream projects, US\$20 billion for downstream investments, and US\$2 billion for internal consolidation. Ecopetrol is following the Petrobras model of diversifying its product as well as its exploration and production (E&P) base. Ecopetrol's core industries include E&P, refining, petrochemicals, transportation, and biofuels. Ecopetrol looks to expand its E&P operations by entering Brazil, Peru, the Caribbean, and the U.S. (Gulf of Mexico) via partnerships and acquisitions. To support this growth, Ecopetrol will establish a U.S. subsidiary, Ecopetrol America, in Houston, Texas, to handle procurements.

14. (C) Ecopetrol plans to continue its capitalization plan by selling an additional 10 percent of its stocks in 2011-2012. Hernandez expects Ecopetrol to receive US\$5 billion from the stock sale. She also noted that the GOC will sell 10 percent of its stake in the company, following the stock issuance which will be used to fund infrastructure projects. By 2012, at least 30 percent of Ecopetrol will be privatized.

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Three Billion for ExIm

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15. (C) As part of its downstream capital expenditure plans, Ecopetrol will renovate and expand its two refineries in Cartagena and Barrancabermeja (Barranca). Ecopetrol will manage the Barranca project and Reficar (contracted by Ecopetrol) will handle the Cartagena project. Ecopetrol's Financial Unit Director Hernandez and Reficar's President, Orlando Cabrales, told Farrell that they would like ExIm to be the lead export credit agency for the two refinery projects and highlighted the need for US\$3 billion in financing. Hernandez commented to us that Ecopetrol has not made a purchase as big as this in 12 years.

16. (C) The Barranca project will increase refining capacity from 250,000 barrels per stream day (BPSD) to roughly 300,000 BPSD and add heavy crude oil processing capabilities (Note: the majority of new, but small, oil discoveries in Colombia has been heavy crude. End Note). The project will also provide a processing configuration to meet the projected 2013 Colombian clean fuels product specifications. The total estimated value of the Barranca project is US\$3 billion. Ecopetrol's consultants, U.S. company Foster Wheeler, expects that a large portion of the equipment will be purchased from the United States. Hernandez told us that she expects Ecopetrol to ask ExIm to provide credit of up to US\$700 million for this project, with construction to begin in mid 2010.

17. (C) The Cartagena Refinery project, administered by Reficar, is a US\$3.8 billion project. It will double output from 80,000 barrels per day (bbd) to 160,000 bbd, refine heavy crude oil, provide enough petrochemicals to support Ecopetrol's new business line, and meet international and national environmental standards, including the elimination of high sulfur and metals waste. The refinery will sell 30-35,000 bbd domestically and export the rest to the United States, the Caribbean, and Chile. The refinery plans to achieve U.S. standards to export diesel to the U.S. market.

18. (C) Reficar President Cabrales indicated the project will need

financing of up to US\$2.5 billion, and he noted to Farrell that 80 percent would be through ExIm. He also noted that he is looking at US\$300-500 million in multilateral loans from the Inter-American Development Bank and the Andean Development Corporation (CAN), as well as commercial loans. Farrell noted that Reficar could request ExIm to secure all of its financing, noting the weak dollar is an attractive financing option. Cabrales expressed interest and added that the majority of procurement and services will be from the United States (Note: GE commented to ExIm that they are competing with Siemens in a bid to sell refinery equipment to Reficar. End Note). If the project is completed within the three-year time allotment, Cabrales indicated Reficar would expect to pay off these loans in 12 to 14 years. In closing, Farrell said that ExIm's Chairman, Fred Hochberg, plans to visit Colombia in early 2010, in part to support these financing opportunities.

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More Business for ExIm  
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¶9. (C) ExIm also met with GE Energy's Country Executive Roberto Yepes to discuss financing of GE wind turbines for IsaGen and

equipment for a 180 MW thermal electric plant in Santa Marta. IsaGen, Colombia's third largest electricity generation company, plans to build a 32MW wind farm in northeast Colombia in the state of La Guajira (reftel B).

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TDA Sees Strong Future in Colombia  
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¶10. (SBU) Patricia Arriagada, U.S. Trade Development Agency (USTDA) Country Manager, met with several GOC and private sector officials and received several requests for feasibility studies. Arriagada noted the more interesting requests were a strategic plan for natural gas storage, a regulatory framework for the development of coal-bed methane, a waste to energy project, technical support to GOC's energy regulator, and offshore oil and gas development in the Caribbean. She also visited Buenaventura to discuss community plans to build an international airport, a project for which President Uribe sought U.S. support in the Pacific port city. In her meetings, Arriagada commented that TDA only has US\$9 million for Latin America, but that TDA would welcome formal proposals for studies in each of the above areas.

¶11. (SBU) Arriagada met with Ministry of Mines and Energy Vice Minister Silvana Giaimo, who was accompanied by Manuel Olivera, local director of the Clinton Foundation. Olivera asked for assistance in the development of solar projects in the poor states of La Guajira (50 MW) and Arauca (350 MW). He requested financial and technical studies and said that excess power could be sold on the national grid. Arriagada expressed interest and asked for additional information, specifically how it would fit under Colombia's strategic energy policy and what U.S. exports would be purchased.

¶12. (SBU) In her meetings with Ecopetrol, Arriagada asked if Colombia wanted the Department of Energy to conduct more in-depth critical energy infrastructure assessments regarding its two refineries on a cost basis (Note: DOE conducted preliminary assessments in early 2009 and noted GOC and Ecopetrol's interest in

conducting more formal assessments. End Note). Ecopetrol's Vice President for Refining and Petrochemicals, Federico Maya, noted interest, but was unsure who would pay for the assessments.

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Comment: Growth in Energy Sector provides Inroads for ExIm  
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¶13. (C) Colombia's energy sector continues on an expansionary track, both in oil and gas and renewable energies (reftel B). Colombia currently produces 650,000 bbd, with plans to produce one million bbd by 2015. Ecopetrol's capital expenditures of approximately US\$60 billion provide additional room for ExIm financing down the road. Farrell noted that the potential request for US\$3 billion in financing will make headlines at ExIm and in Washington.  
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